There is another important aspect of the prime minister's political style. He has been likened to a "weathervane" by the Japanese press, implying an abundant willingness to compromise basic principles for political expediency. His supporters have countered this criticism by characterizing his policy shifts as "flexibility," rather than a lack of principle, and by saying that adaptability to variable political currents is one of the most important qualities required of a political leader.

The choice of educational reform is typical of Nakasone's sensitivity to the current political climate. The problems facing Japan's educational system have been given wide coverage in the media. Nakasone picked up the theme and turned it to political advantage by explaining to the Diet his reverence for Japanese tradition and his goal of recovering Japan's national identity through reexamination of Japan's educational system. During his first year in office when the LDP enjoyed a safer political position in the Diet, he selected more controversial issues, such as national defense and the question of the need for a constitutional amendment to allow military spending to rise.

He is said to have another reason as well. Administrative reform -- the political focus of his first cabinet -- has already waned in popularity. Although the fundamental objective of the program was to balance the budget without increasing taxes, the government does seem to be moving gradually toward a tax increase to meet budget needs and avoid additional deficits. The shift to educational reform may be designed to divert attention from vexing tax and budget problems.

Nakasone insists that he has not abandoned his pledge for administrative reform. At the same time, he is emphasizing the "higher" importance of educational reform. Nearly a year ago he is said to have commented at a closed-door meeting of the Research Institute of National Policy that after streamlining the bureaucracy, he would grapple with education and then defense, with the same targeted scheme for reform that was used in the administrative overhaul.

Educational reform is, of course, a domestic issue. However, it may serve as a transition toward Nakasone's ultimate goal, defense. And, in a sense, it could carry more than domestic significance. It could have serious implications for the younger generation's world views.

For further information, contact Hiroshi Ando.

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

* * * * * *

NAKASONE'S CABINET LINEUP

Name	Age	Position	District	Faction	Number of Times Elected	Previously Held Posts	Former Career	Financial Background (million yen) Real Property	Credit & Securities	Debt
Yasuhiro Nakasone	65	Prime Minister	Gunma	N	15	Transport Minister; Director General; Defense Agency; S.G.	National Police Agency	7,331	5,078	3,580
Eisaku Sumi	63	Justice Minister	Toyama	S	5	Political V. Minister of Construction	Labor Ministry	5,014	1,264	5,000
Shintaro Abe	59	Foreign Minister	Yamaguchi	F	9	Agriculture Minister; Chairman, P.A R.C.	Newspaper Journalist	9,415	3,759	0
Noboru Takeshita	59	Finance Minister	Shimane	T	10	Chief Cabinet Secretary; Deputy S.G.	Member of a Prefectural Assembly	6,436	5,024	1,416
Yoshiro Mori	46	Education Minister	Ishikawa	F	6	Deputy Cabinet Secretariat	Newspaper Journalist	1,838	290	5,400
Kozo Watanabe	51	Health and Welfare Minister	Fukushima	T	6	Political V. Minister of Education	Member of a Prefectural Assembly	1,920	4,483	1,741
Shinjiro Yamamura	50	Agriculture, Forestry, Fisheries Minister	Chiba	T	7	Political V. Minister of Transport	Secretary for Dietman	3,076	525	0
Hikosaburo Okonogi	55	International Trade & Industry Minister	Kanagawa	N	6	Political V. Minister of Foreign Affairs	Lumber Trading Business	34,121	5,585	6,434
Kichizo Hosoda	71	Transport Minister	Shimane	F	9	Director General of Defense; Chairman, E.C.	Transport Ministry	2,793	0	640
Keiwa Okuda	56	Posts and Telecommunications Minister	Ishikawa	T	6	Political V. Minister of Foreign Affairs	Member of a Prefectural Assembly	1,590	6,485	1,995
Misoji Sakamoto	60	Labor Minister	Ishikawa	K	7	Chairman of House Education Committee	Member of Local School Board	6,721	1,952	8,806
Kiyoshi Mizuno	58	Construction Minister	Chiba	S	6	Political V. Minister of Foreign Affairs	Radio Newsman (NHK)	2,276	215	11,355
Soichi Tagawa	65	Home Affairs Minister (Chairman, National Safety Commission)	Kanagawa	NLC	9	Political V. Minister of Health & Welfare	Newspaper Journalist	8,556	1,341	840
Takao Fujisaki	51	State Minister (Chief Cabinet Secretary)	Mie	N	7	Labor Minister Deputy Cabinet Secretariat	Member of a Prefectural Assembly	1,462	1,777	2,447
Ichiro Nakanishi	68	State Minister (Director General, Prime Minister's Office; Director General, Okinawa Development Agency)	Hyogo	F	*3	Political V. Minister of International Trade and Industry	Agriculture Ministry	472	2,740	0

Name	Age	Position	District	Faction	Number of Times Elected	Previously Held Posts	Former Career	Financial Background (million yen) Real Property	Credit & Securities	Debt
Masaharu Gotoda	69	State Minister (Director General, Administrative Management Agency)	Tokushima	T	4	Chief Cabinet Secretary	National Police Agency	4,767	4,100	2,250
Yuko Kurihara	63	State Minister (Director General, Defense Agency)	Shizuoka	S	*2 & 5	Labor Minister; Chairman, House Budget Committee	Agriculture Cooperative (Nokyo)	2,297	1,083	0
Yoshio Komoto	72	State Minister (Director General, Economic Planning Agency)	Hyogo	K	14	International Trade & Industry Minister; Chairman, P.A.R.C.	Shipping Company	8,747	510,264	610,800
Michiyuki Isurugi	70	State Minister (Director General, Science & Technology Agency; Chairman, Atomic Energy Commission)	Iwate	S	1 & *4	Chairman of Fianace Committee; (House of Councilors)	Finance Ministry	12,434	473	11,130
Minoru Ueda	69	State Minister (Director General, Environment Agency)	Kyoto	T	*4	Chairman of Local Government Committee; (House of Councilors)	Construction Ministry	339	4,065	0
Sakonshiro Inamura	66	State Minister (Director General, National Land Agency; Director General, Hokkaido Development Agency	Ishikawa	N	8	Director General, Prime Minister's Office	Construction Company	8,970	17,705	0

*Refers to House of Councillors

S.G. = Secretary General
P.A.R.C. = Policy Affairs Reserch Council
E.C. = Executive Council

R5650-2A

JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

NO. 13B
March 30, 1984

INSIGHTS IN THIS ISSUE:

China Awaits Japan's Prime Minister 1

Boeing, Japanese Trio Agree to Work on Medium-Size Jetliner 4

International Jet Engine Project Moves Ahead 5

Senate Holds Trade Deficit Hearings 6

Factions Plot While Nakasone's Popularity Climbs 8

Pressure for Financial Liberalization in Japan: By the Book 10

Japan's 1983 Growth Rate Hits 3 Percent 11

China Awaits Japan's Prime Minister

On the eve of Prime Minister Nakasone's trip to China, a review of recent Sino-Japanese relations can serve to describe the current environment and perhaps throw some light on the motivations and goals of both sides. Since the normalization of diplomatic ties in September 1972, the two countries have slowly constructed a solid foundation in both trade and cultural sectors, and government officials are now seeking a framework for cooperation in political and security matters. While unlikely to ever approach the status of an alliance, the geographical neighbors feel close cooperation in some areas would be of mutual benefit.

The real bedrock of relations is bilateral trade. The two economies continue to be highly complementary: Japan trading technology and industrial goods which China pays for with agricultural products and raw materials. The attached table presents an overview of Sino-Japan trade from 1979 to February of this year. The generally positive trend in trade volume is probably due to several factors. First, externally oriented economic policies pursued by Deng Xiao-ping have increasingly brought China's domestic economy into the global market. Second, the 1978 long-term trade agreement provided goals and a framework to facilitate transactions. And finally, the Japanese government, pursuing its long-term pragmatic view of bilateral relations, actively supported and financed an expansion of bilateral activities

The importance of this trade tends to be masked by its relatively small share of the total trade of each country. China bought just 3 percent of Japan's total exports and its products accounted for only 4 percent of Japan's imports in 1983; Japan represented about 20 percent of China's total export and import trade last year. China is Japan's top customer for several export items, including steel sheet, tinned sheet, man-made fibers and plastics. It is is Japan's primary supplier of industrial inputs such as cotton fabrics, raw silk and pig iron, while holding the number-two position for light oils, kerosene, non-metallic minerals and vegetables.

One problem that the Chinese would like to see corrected is the surprisingly low level of Japanese direct investment in China. Of 112 direct investments or joint ventures in China as of September 1983, only nine involved Japanese firms, compared with Hong Kong's 68 joint ventures and the United States' 18 projects. Investment conditions have improved, however, since last September's agreements on taxation and investment sanctity. While Japan plans to send an investment mission to China next month, any significant change in the current situation is not likely because Japanese concerns, such as political instability, bureaucratic inefficiency, inadequate infrastructure and a lack of managerial expertise, have not been addressed.

Another area of recent activity concerns energy trade and in particular, exports of nuclear power plants. Japan insisted that China comply with three requirements: controls over the recycling of spent nuclear fuel; a prohibition on the reexport of Japanese nuclear technology to other countries; and on-site inspections -- all obviously to prevent weapons manufacture. On March 16, notes were exchanged in Beijing that provided the Japanese with the guarantees they were seeking. At the same time, Minister of International Trade and Industry Hikosaburo Okonogi announced that permission would be granted to Mitsubishi Heavy Industries to supply a reactor pressure vessel to serve as the heart of China's first nuclear power plant. With the Chinese planning to build 20 nuclear power plants by the year 2000, the agreement opens a new and potentially lucrative market to the Japanese.

The primary reason for Mr. Nakasone's trip, according to government officials, is to exchange views on a number of security issues, the most prominent of which is the tension in the Korean peninsula. A number of initiatives by concerned parties have recently surfaced and Japan feels that China must be brought into the process if real progress is to be made. The prime minister is expected to pursue a suggestion made by Party Secretary Hu Yao-bang to create a China-Japan committee to provide enhanced communications.

Japan's Trade with China 1979-1984
(in millions of dollars, seasonally unadjusted)
(percentage change from same period previous year in parentheses)

	1979		1980		1981		1982		1983		1984 January		1984 February	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Total	$3,698.7 (21.3%)	$2,954.8 (45.5%)	$5,078.3 (37.3%)	$4,323.4 (46.3%)	$5,095.5 (0.3%)	$5,291.8 (22.4%)	$3,510.8 (-31.1%)	$5,352.4 (1.1%)	$4,914.1 (40.0%)	$5,087.1 (-5.0%)	$405.4 (78.1%)	$423.7 (2.1%)	$419.7 (33.8%)	$476.1 (22.0%)
Food	0.5 (217.1%)	432.1 (19.5%)	1.3 (182.3%)	470.7 (8.9%)	5.3 (304.7%)	556.1 (18.2%)	6.0 (13.2%)	504.4 (-9.3%)	16.3 (171.6%)	522.6 (3.6%)	1.0 (2.0%)	47.8 (3.6%)	1.3 (212.9%)	44.6 (27.0%)
Textiles	164.3 (-1.9%)	485.7 (58.2%)	403.9 (145.8%)	533.0 (9.7%)	599.4 (48.4%)	551.4 (3.4%)	367.9 (-38.6%)	572.8 (3.9%)	286.3 (-22.2%)	621.5 (8.5%)	23.9 (43.1%)	58.6 (10.5%)	24.9 (66.8%)	62.8 (50.7%)
Chemicals	459.6 (9.5%)	124.4 (122.8%)	543.1 (18.2%)	198.0 (59.2%)	523.1 (-3.7%)	244.6 (23.5%)	469.8 (-10.2%)	230.1 (-5.9%)	509.9 (8.5%)	218.1 (-5.2%)	41.7 (18.9%)	20.0 (8.2%)	50.7 (72.0%)	13.8 (24.9%)
Nonmetallic Mineral Manuf.	27.9 (171.5%)	*	34.1 (22.2%)	*	68.9 (102.2%)	*	36.9 (-46.5%)	*	70.7 (91.8%)	36.9	3.1 (15.1%)	2.0 (-65.3%)	4.1 (-28.9%)	3.0 (75.7%)
Metal Products	1,748.0 (3.5%)	15.4 (116.5%)	1,683.3 (-3.7%)	49.1 (218.5%)	1,249.8 (-25.8%)	210.0 (327.8%)	1,354.3 (8.4%)	189.0 (-9.7%)	2,432.8 (79.6%)	62.6 (-66.9%)	211.8 (90.5%)	2.8 (-58.0%)	181.2 (52.6%)	1.9 (26.4%)
Machinery & Equip.	1,124.6 (76.6%)	1.9 (96.8%)	2,146.7 (90.9%)	4.8 (151.2%)	2,433.4 (13.4%)	38.4 (699.3%)	1,067.1 (-56.1%)	7.4 (-80.8%)	843.5 (-21.8%)	13.4 (81.3%)	67.6 (-31.2%)	0.9 (-33.5%)	78.3 (17.4%)	0.5** (-66.6%)
Other	173.8 (82.1%)	156.1 (45.7%)	266.0 (53.0%)	190.7 (22.2%)	215.4 (-19.0%)	241.9 (26.9%)	208.8 (-3.1%)	212.3 (8.4%)	219.3 (5.0%)	250.5 (-11.8%)	19.5 (108.3%)	19.1 (11.1%)	27.3 (80.6%)	14.3 (14.0%)
Metal Ores & Scrap		10.5 (109.8%)		8.5 (-19.1%)		16.9 (98.4%)		16.6 (-1.7%)		11.0 (-33.5%)		0.5 (-53.9%)		0.3 (-66.5%)
Raw Materials		316.2 (90.4%)		312.5 (-1.2%)		335.3 (7.3%)		331.5 (-1.1%)		422.1 (27.3%)		39.7 (5.8%)		37.6 (49.1%)
Mineral Fuels		1,188.7 (45.2%)		2,376.6 (99.9%)		2,935.1 (23.5%)		3,061.4 (4.3%)		2,778.6 (-9.2%)		211.9 (-2.5%)		276.0 (12.5%)
Textile Materials		223.7 (11.4%)		179.4 (-19.8%)		162.1 (-9.6%)		176.9 (9.1%)		208.2 (17.7%)		20.0 (20.6%)		21.7 (41.1%)

* included in "Other" category
** partial data only

Source: Ministry of Finance

Additionally, he will offer China a new seven-year Y460 billion ($2 billion) package of low-interest loans for development projects. Mr. Nakasone will have his hands full meeting with all the top Chinese leaders during this important visit.

Jon Choy

Boeing, Japanese Trio Agree to Work on Medium-Size Jetliner

Boeing Co. and its three Japanese partners on the 767 aircraft program have moved a step closer to collaborating on a new medium-size, medium-range jetliner. On March 15, the aerospace giant and the team of Mitsubishi Heavy Industries, Ltd., Kawasaki Heavy Industries, Ltd. and Fuji Heavy Industries, Ltd. formally agreed to explore the possibility of developing a fuel-efficient, quiet plane in the 150-seat range. The Japanese companies, operating under the umbrella of the Japan Aircraft Development Corp., will be full-fledged partners in the program if it goes ahead, involved in all phases from design through marketing and product support, not just risk-sharing participants like they are on the 767 project (see JEI Report No. 39A, October 14, 1983). The trio will cover 25 percent of the estimated $1.6 billion cost of bringing the new airliner to the market. Boeing will hold a stake of at least 51 percent in the program -- dubbed the 7-7 here and the YXX in Japan, with the remaining 24 percent open to participation by other companies.

Boeing officials are quick to emphasize that the letter of understanding initialed with the Japanese consortium only commits the two parties to study possible development of a passenger transport of medium size and range; it is not a production contract. They also rebuff suggestions that the agreement was timed to neutralize the recent announcement by Europe's government-backed Airbus Industrie S.A. that it was launching development of the new 150-seat A320. Boeing has been discussing the possibility of teaming up with the Japanese trio on the next generation of mid-size aircraft since 1980, executives of the Seattle firm note, adding that basic details of the memorandum of understanding had been ironed out by last fall. Moreover, the two sides have been doing independent initial design work on a 150-seat-class jetliner for the past two years, with Boeing said to have already spent $100 million on preliminary designs and wind tunnel testing.

Spokesmen for the American aerospace concern maintain that Boeing and its Japanese partners will not limit their feasibility studies to a 150-seat plane; market conditions, among other factors, will determine the configuration of the proposed jetliner. They add, though, that if the companies do decide to develop a new medium-size, medium-range jetliner, the aircraft will be state of the art, offering such features as improved aerodynamics and advanced flight decks and making extensive use of high-strength, weight-reducing aluminum-lithium structures and additional composite materials. Newer technologies like these should help Boeing and the Japanese consortium offset Airbus's head start in the 150-seat-class market, argue industry analysts, who expect the 7-7/YXX to be ready for delivery in the early 1990s, or three years after the A320.

Boeing and the three Japanese airframe makers have set no deadline for deciding whether to develop a new jetliner. The American company is still not

Japan's Real Gross National Product at Constant Prices (1975 Prices)

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	1982	1983	January-March 1983	April-June 1983	July-September 1983	October-December 1983
Gross National Product	Y203,908.2 (3.3%)	Y210,112.7 (3.0%)	Y206,423.9 (0.7%)	Y208,683.0 (4.5%)	Y211,856.1 (6.2%)	Y213,496.9 (3.1%)
Personal Consumption Spending	106,945.2 (4.2%)	110,510.8 (3.3%)	109,712.5 (3.0%)	109,915.3 (0.7%)	110,848.1 (3.4%)	111,433.3 (2.1%)
Private Residential Construction	10,685.1 (-0.8%)	10,182.0 (-4.7%)	10,969.5 (-13.4%)	9,577.3 (-41.9%)	9,904.1 (14.4%)	10,464.2 (24.6%)
Private Fixed Nonresidential Investment	35,122.8 (3.5%)	35,810.5 (2.0%)	35,070.6 (-0.6%)	35,400.2 (3.8%)	36,002.0 (7.0%)	36,685.8 (7.8%)
Change in Business Inventories	1,798.9 (-1.6%)	551.9 (-69.3%)	53.4 (*)	884.8 (*)	400.4 (*)	869.6 (*)
Government Current Expenditures	19,258.5 (2.3%)	19,725.2 (2.4%)	19,502.5 (2.0%)	19,622.4 (2.5%)	19,843.5 (4.6%)	19,945.2 (2.1%)
Government Fixed Investment	18,474.8 (0.0%)	18,435.4 (-0.2%)	17,875.3 (-11.1%)	18,768.8 (21.6%)	18,932.2 (3.5%)	18,375.2 (-12.3)
Change in Government Inventories	-333.6 (-14.8%)	-334.4 (-0.2%)	-291.3 (*)	-206.0 (*)	-165.6 (*)	-676.3 (*)
Net External Sector	11,956.6 (5.7%)	15,231.3 (27.4%)	13,531.5 (36.4%)	14,720.2 (40.0%)	16,091.4 (42.8%)	16,399.9 (7.9%)
Exports of Goods and Services and Factor Income Received	40,424.0 (3.5%)	42,357.0 (4.8%)	39,891.5 (-1.7%)	41,108.1 (12.8%)	43,292.3 (23.0%)	44,949.2 (16.2%)
Imports of Goods and Services and Factor Income Paid	28,467.4 (2.5%)	27,125.8 (-4.7%)	26,360.0 (-4.3%)	26,387.9 (0.4%)	27,200.9 (12.9%)	28,549.3 (21.4%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

R5650-2A

JAPAN · ECONOMIC · INSTITUTE

JEI

REPORT

NO. 14A April 6, 1984

THE WORLD ECONOMY IN 1983

Summary

Statistics for 1983 present a quiltwork pattern of healthy nations and sick ones based upon data slowly coming to light. While the past year brought relief to many industrial nations, a number of developing countries are still in intensive care. International trade continued to shrink in overall terms during the year, although an expansionary trend appeared in the last few months. Movements of national interest rates, consumer prices and exchange rates revolved around an axis combining the U.S recovery and continued high American interest rates. Commodity and oil prices stabilized -- the former recovering previous strength while the latter lost ground. And international economic discussions were threatened by continued moves toward protectionism by large and small countries alike.

Economic Growth

The rebound of the industrial nations from the depths of the 1981-82 recession was 1983's most encouraging development (see Table 1 for statistics). Leading the way, the United States went from 1982's 2.0 percent decline to 3.3 percent growth. Even more impressive was Canada's performance, swinging from a 4.4 percent contraction to a 3.0 percent increase. According to December 1983 estimates by the Organization for Economic Cooperation and Development (OECD), real growth of OECD members as a whole should have turned in a 2.25 percent performance as opposed to 1982's disappointing 0.3 percent dip. Even if the powerhouse U.S. economy is left out of the picture, the

industrial nations apparently posted a still weak, though improved, 1.5 percent gain, indicating stronger rates of growth in all the member nations except Italy. Reflecting this general upturn, the growth of industrial production in the OECD nations showed a turnaround, hitting 3.5 percent last year after a worrisome 5.0 percent drop in 1982.

Japan was strongly affected by the upturn in both Southeast Asia and the United States through trade links, the spillover effects from which has reawakened domestic demand. The Japanese economy performed more weakly than predicted in the first half of 1983, but compensated with a growth spurt in the third quarter and a solid gain in the fourth. While the recovery was export-led for the most part, business investment and housing construction began to pick up speed in the latter half of the year.

The European economies remained in low gear, constrained by weak domestic demand and austere fiscal policies. Only three countries -- Spain, Finland and Turkey -- broke the 2 percent growth level, although others made marginal gains over 1982. Members of the European Community (EC) doubled their 1982 performance, though this increase amounted to only a 1 percent overall increase. This aggravated political problems, especially British demands for a cut in the United Kingdom's contribution to the Community coffers. France and other EC members, suffering from weak growth too, were unwilling to relent, causing a near collapse of Community finances.

All these factors led to a worsening in unemployment in the industrial nations, with the exception of the United States. Over 33 million workers were idle in the OECD countries, representing 9 percent of the labor force. In some nations -- the United Kingdom, France, Italy and Canada -- the unemployment rate improved, although it was still high at between 8 and 12 percent; in other countries like Germany and Japan, the labor market continued to deteriorate. For these two, this was particularly bad news given their performances in previous decades, but it may reflect a changing demographic picture (e.g. in Japan, women are entering the job market in record numbers).

Inflation figures present a bright spot, although the cost of reduced inflation was high in terms of jobs and output. Again the United States stood out as a star performer, showing only a slight upward trend during its recovery. Japan continued to outdo everyone in this field, holding inflation down to around 2 percent. Even Britain, Italy and France managed to reduce their painfully high rates. The seven major industrial countries halved their combined 1982 inflation rate last year, and OECD nations as a whole dropped their total figure 2 percentage points.

Other areas of the world were unevenly influenced by the recovery of the developed nations. At extreme poles were Asia and Central/South America. In Asia, the recession in most cases bottomed out last year as suppliers worked feverishly to feed the import-hungry U.S. recovery. The average growth rate for the five ASEAN nations plus Korea, Taiwan and Hong Kong hit 5.3 percent -- above 1982's "low" of 3.6 percent, but still below the 6.8 percent level of 1981. The unemployment picture, built on scanty information only, was not quite as heartening. Partial figures indicate a slight increase in the average

The JEI REPORT (ISSN 0744-6489) is published weekly for $40 per year by the Japan Economic Institute of America, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036. Second class postage paid at Washington, D.C. POSTMASTERS: Send address changes to JEI, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036.